FOREIGN POLICY REPORTS

July 1, 1936

The United States Silver Policy

BY JOHN PARKE YOUNG

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

EIGHT WEST FORTIETH STREET, NEW YORK, N. Y.

VOLUME XII NUMBER 8 *25¢ a copy* *$5.00 a year*

The United States Silver Policy

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with the aid of the Research Staff of the Foreign Policy Association

SINCE the first of 1934, the United States has spent slightly more in acquiring silver than it has expended in building and maintaining the Panama Canal. To date the government has bought a little over half the silver it must accumulate in pursuance of its present objectives, defined by law. The purpose of these acquisitions, the accompanying rise in the price of silver and the effects on the United States and other countries are analyzed in this report.

Gyrations in the price of silver during the past two decades have been equalled by those of few commodities. In spite of this instability several nations endeavored to use silver as a currency standard, but today they have all been forced to abandon it. The recent silver measures adopted by the government of the United States are largely an outgrowth of the fall in the price of the metal which began early in 1929. The price declined in 1931 to the lowest point reached in two thousand years. In 1933 silver made an about face, and by May of 1935 its price had been pushed to more than three times its low level, an unprecedented rise due almost wholly to efforts of the American government.

The effects of this drastic rise were particularly profound outside the United States. Although silver has long been nothing more than a commodity in the United States—like copper or nickel—in some foreign countries it has served as the monetary standard and the basis for measuring values. Therefore, raising the price of silver is markedly different from raising the price of wheat, cotton or other commodities.

For China the extensive and rapid rise in silver prices was a major disaster. China's currency, based on the silver standard, was attracted to this country by the high prices paid by the United States Treasury. Its departure left a void in China's currency, resulting in bank and commercial failures, drastic declines of commodity prices, severe depression and financial crisis. The economic upheaval has been unequaled in modern Chinese history. China protested vigorously; placed restrictions on the exportation of silver; and finally was compelled to leave the silver standard and go on a managed currency basis. The agreement of May 1936 between the United States and China should assist in the maintenance of this currency.

Countries which do not have the silver standard commonly use silver for token money. If the price of silver rises, the commodity value of these coins may become too great and lead to their disappearance from circulation. A rise in the price of silver may even put a country on the silver standard against its wishes. Changing the price of silver is, therefore, a matter of no small consequence.

The United States Treasury in December 1935 practically withdrew from the foreign silver market. The foreign price of silver thereupon dropped precipitously, since the Treasury had theretofor been the principal buyer. Although the foreign price was allowed to fall until by January 1936 it was about half what it had been the previous May, domestic silver production has continued to be absorbed by the Treasury at 77.57 cents an ounce.

The question of silver in the United States, from the economic point of view, would be of no great significance were it not for the political involvement and the profound consequences of the resulting governmental measures.

BACKGROUND OF "SILVER QUESTION"

The antecedents of the so-called "silver question" in the United States may be traced to 1792, when the United States adopted the bimetallic standard. According to the Act of 1792, both gold and silver could be taken to the mint for coining in unlimited

FOREIGN POLICY REPORTS, VOLUME XII, NUMBER 8, JULY 1, 1936

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 8 West 40th Street, New York, N. Y., U.S.A. RAYMOND LESLIE BUELL, *President;* WILLIAM T. STONE, *Vice President and Washington representative;* VERA MICHELES DEAN, *Editor;* HELEN TERRY, *Assistant Editor. Research Associates:* T. A. BISSON, VERA MICHELES DEAN, HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, CHARLES A. THOMSON, M. S. WERTHEIMER, JOHN C. DEWILDE. Subscription Rates: $5.00 a year; to F. P. A members $3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y under the Act of March 3, 1879.

quantities. The ratio between the two metals was fixed at 15 to 1; that is, the mint would accept for coinage 15 ounces of silver as the equivalent of one ounce of gold. The market ratio between the metals, however, was soon out of harmony with this mint ratio.[1] The result was that the dearer metal, gold, disappeared from circulation, and the United States for all practical purposes was on the silver standard.

This situation—legal bimetallism but in practice the silver standard—continued until 1834 when the mint ratio was changed. It was altered again very slightly in 1837, but from then until 1934 continued at 15.988 to 1. This 1837 ratio, however, went too far in the other direction and was above that prevailing in the market. Gold became the cheaper metal, and silver gradually disappeared from circulation. The United States thus, unintentionally and scarcely aware of what was happening, shifted to the gold standard. Legally, bimetallism still prevailed.[2]

The complete and legal departure from bimetallism and the free coinage of silver came in 1873, when an Act to revise the coinage laws dropped the silver dollar from the list of coins to be struck. The dollar, however, was the only coin to which free coinage had applied.[3] This omission caused slight comment at the time, since the price of silver had for so long been above the point where free coinage could be availed of profitably. The Act, however, closed the mints completely to silver, and was responsible for the widespread silver agitation which began shortly thereafter and has continued intermittently to date. Thus was born the "silver question."

By a strange coincidence, almost immediately after the Act of 1873—later known as the "Crime of 1873"—the price of silver began a long and severe decline in terms of gold, due principally to the fact that most of the advanced nations were turning away from silver and adopting gold as their monetary standard. The more the price declined, the louder was the demand in the United States that the government do something in behalf of silver. As a result, the Treasury in 1878 was instructed by the Bland-Allison Act to purchase regularly large quantities of silver and coin it into silver dollars. Although the dollars could not be made to circulate and the Treasury did not need this silver, the amounts were increased by the Sherman Silver Purchase Act of 1890.

The burden of these measures on the Treasury and the dwindling gold reserve was severe after 1890. The world felt that the United States was going on the silver standard as a result of the inflationary flood of silver money and paper backed by silver. The ability to redeem all this money in gold appeared uncertain. A financial crisis ensued, and the Sherman Act was repealed in 1893 at a session of Congress called for this purpose. This did not end the agitation, and in the election of 1896 silver was the leading issue. Bryan, running on his platform of free coinage of silver at the ratio of 16 to 1, was defeated, and the gold standard was definitely accepted by the country.

The silver question remained quiescent until the World War. As the war progressed, Britain was increasingly in need of silver for shipment to India to pay for supplies purchased in that country. The United States government had large hoards of silver lying idle in the Treasury, accumulated as a result of the silver purchase measures of the previous century. Britain was eager to buy, and after the United States had entered the war the Pittman Act of 1918 made this silver available to the British at a price of approximately $1.00 an ounce, or about double the market prices of pre-war years. The United States was thus given an exceptionally favorable opportunity to rid itself of its excessive silver.

In the Act, however, was inserted a provision that all silver sold should be replaced by domestically mined silver to be bought subsequently at the fixed price of $1.00 an ounce. Consequently, for several years following the war the Treasury found itself buying from American producers silver which it did not need, at the high price of $1.00 an ounce, as compared with the market price of 60 odd cents. For the re-purchase of this silver, the Treasury spent a little over two hundred million dollars.[4]

AIMS OF ROOSEVELT'S SILVER PROGRAM

During the first part of 1929 silver began its long descent which carried the price to unprecedented levels. The decline accompanied a drastic falling off in commodity prices in general, but was

1. In the market one ounce of gold would buy a little more than 15 ounces of silver.

2. The mints were still open to the free coinage of silver, which was legal tender but, since the market paid a better price for the metal, silver was not brought for coining.

3. To relieve the scarcity of small change, silver coins—with the exception of the silver dollar—were reduced in weight in 1853 so that they would stay in circulation. They thus became token or fiduciary coins. Bullion for these light-weight coins was purchased by the government, and the free coinage of silver was abolished with the exception of that which might be brought for coining into silver dollars. Inasmuch as the amount of silver in a silver dollar cost more than a dollar, silver was not brought for this purpose.

4. In addition, the Senate in 1924 instructed the Treasury to buy 14,590,000 ounces more at $1.00 an ounce, because some of the Treasury's silver had been used for subsidiary coins.

also caused by fundamental changes regarding silver itself—particularly currency changes in India and the dumping of large quantities of Indian silver on the market. As the price of silver declined, agitation in behalf of the metal increased.

Due to the increasing severity of the economic depression during 1930, 1931 and 1932, proposals aimed to aid the silver industry obtained the support of sponsors of currency measures advocated as remedies for the business and financial disturbances. Inflationary demands from people not particularly interested in silver harmonized with proposals that the silver element in our currency be broadened and even that the mints be re-opened to the free coinage of silver.

With the continuance of the depression many came to feel that the monetary and credit mechanism of the country should be expanded to check the devastating deflation. This could have been done, of course, without any reference to silver. Trade with China had been disturbed by the falling price of silver, and advocates of a silver subsidy advanced the idea that China's purchasing power would be increased by higher prices for silver, and that this would also benefit the United States. A flood of proposals involving silver were brought forward and actively discussed. The silver measures finally adopted by the Roosevelt administration followed on the heels of these strong demands.

The principal aims of the administration's silver program, according to statements of sponsors and friends of the measures, discussions in connection with their adoption, and the purposes stated in the laws themselves, were as follows:[5]

1. To stabilize the price of silver and prevent such wide fluctuations as had recently taken place.

2. To increase the silver element in the monetary system of the United States.

3. To bring about some inflation of the currency for the purpose of raising commodity prices.

4. To encourage foreign nations to use more silver in their monetary systems, particularly as the material for token money. (The tendency abroad since the beginning of the World War has been to use more paper money for small denominations, and cheaper metals than silver for subsidiary coins.)

5. To reduce sales of silver by foreign countries which possessed excessive silver supplies, largely because of changes in their currency systems.

6. To protect American foreign commerce against the adverse effects of depreciated foreign currencies. (This provision was aimed particularly at low-priced Japanese and Chinese goods.)

7. To increase the purchasing power of silver-using countries.

8. To raise the price of silver for the purpose of benefiting the silver industry.

U.S. SPONSORS SILVER AT WORLD CONFERENCE

The price of silver is influenced by currency policies and events in many countries. It is produced principally in Mexico, the United States and Canada, and consumed largely in China, the United States and India. Its principal market is centered in London, while India and Spain are possessors of large stocks of the metal.

When the Government of India in 1927 changed its currency policy and began selling silver in order to build up a gold reserve, the price of silver accordingly began to decline, and objections were raised in various parts of the world—particularly within the United States. The instability in silver was also detrimental to China. As the depression grew worse, the price of silver fell lower and lower, and the demands that the United States government "do something for silver" became more insistent. The Democratic administration which took office in March 1933 was pledged in its platform to "an international monetary conference called on the invitation of our Government to consider the rehabilitation of silver and related questions."

The movement for international cooperation to rehabilitate silver culminated in May 1933, when Senator Key Pittman of Nevada announced that all the countries participating in the discussions at Washington preliminary to the world economic and monetary conference — arranged for during the Hoover Administration and about to convene in London—had agreed in principle on plans regarding silver.

Although the conference as a whole was a failure, the resolution introduced by the United States delegation was approved unanimously[6] by the dele-

5. Title three of the Act of May 12, 1933, known as the Thomas Amendment, authorized the President in Section 2 "... to fix the weight of the silver dollar ... at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies ...."

The President's proclamation of December 21, 1933 regarding the purchase of domestically mined silver contains the following: "Whereas, ... I find it necessary, in aid of the stabilization of domestic prices ... and to protect our foreign commerce against the adverse effect of depreciated foreign currencies, that the price of silver be enhanced and stabilized; ... Now, therefore, finding it proper to cooperate with other Governments and necessary to assist in increasing and stabilizing domestic prices, to augment the purchasing power of peoples in silver-using countries, ... and to carry out the understanding between the Governments that adopted the resolution hereinbefore referred to ...."

6. E. W. Kemmerer, "Kemmerer on Money," *The Silver Purchase Plan*, p. 124.

gates of the 66 nations on July 20, 1933. It recommended that nations using, producing, or holding silver make an agreement with a view to mitigating the fluctuations in price; that the nations refrain from further debasement of silver coinage; and that they substitute silver for low value paper currency.[7]

The agreement referred to in the resolution was signed outside the conference on July 22, 1933 by representatives of eight nations—the United States, Canada, Mexico, Australia and Peru (silver producers), and India, China and Spain (holders of silver). The agreement provided, among other things, that India limit its annual sales of silver, and that other nations withdraw from the market annually a certain amount of their mine production.[8]

Neither the resolution nor the subsequent agreement make any mention of raising the price of silver. On the contrary the agreement was made "with a view to mitigating the fluctuations in the price of silver, and that other nations not parties to this agreement should refrain from measures which could appreciably affect the silver market." The subsequent silver measures of the United States, sponsor of the agreement, have hardly been in harmony with this aim of stabilization and the avoidance of measures which would "appreciably affect the silver market."

In the President's Proclamation of December 21, 1933, regarding the purchase of domestically mined silver, he announced that he had ratified the above agreement. India, he stated, had already put the agreement into effect. Of the 66 nations that agreed unanimously to the resolution, the majority do not produce any silver and are not much interested in silver. Many have no silver coins in circulation, but use nickel, copper or bronze for minor coins and paper for larger denominations. Others have only small amounts of silver in their coins because of a reduction in the silver content of the coins during and after the war.

Few of the countries were buyers or potential buyers of silver. On the other hand, several of them possessed large stocks of silver which they wished to sell. Such silver-producing countries as Australia, Canada, Mexico, and Peru would obviously support the United States in plans to prevent further dumping of silver on the world's markets and to bring about an absorption of part of the silver output.

China, as the only large nation on the silver standard, desired stabilization of the price of the metal. The drastic declines in price which had taken place had upset China's foreign exchange rates and trade. It was China's hope that a check in the sales of silver from India and elsewhere, and the absorption of silver by the United States would halt the decline and thereby benefit China. The sharp and extensive rise in price, maneuvered by the United States and so disastrous to China, was certainly not desired.

SILVER MEASURES ADOPTED BY THE UNITED STATES

The first important measure taken by the Roosevelt administration in behalf of silver was the Act of May 12, 1933. This Act, among other things, empowered the President to adopt bimetallism and open the mints to unlimited coinage of silver at practically any ratio to gold that he wished. He was also given the power to alter the weight of the silver dollar—as well as that of the gold dollar—and to receive war-debt payments in silver. Under authority of this Act, the President in December

7. For text of the resolution, cf. *Commercial and Financial Chronicle*, July 29, 1933, p. 777.

8. The Agreement reads:

Whereas, the governments of India and Spain may desire to sell a certain portion of their silver holdings and it would be to their advantage that the countries which are large producers of silver should absorb silver as herein provided to offset such sales; and

Whereas, It is to the advantage of the large producing countries named in Article II that the sales of silver from monetary stocks should be limited as herein provided; and

Whereas, It is to the advantage of China that the sales from monetary stocks of silver be offset by the purchases as herein provided with a view to its effective stabilization:

Now, therefore, it is agreed between the parties hereto:

I

. . . That the Government of India shall not dispose by sale of more than 140,000,000 fine ounces of silver during the period of four years commencing Jan. 1, 1934. Disposals during each calendar year of the said four-year period shall be based on an average of 35,000,000 fine ounces per year . . . .

II

That the Governments of Australia, Canada, the United States, Mexico, and Peru during the existence of this agreement shall not sell any silver and shall also in the aggregate purchase or otherwise arrange for withdrawing from the market 35,000,000 fine ounces of silver from the mine production of such countries in each calendar year for a period of four years commencing with the calendar year 1934. Said Governments undertake to settle by agreement the share in said 35,000,000 fine ounces which each of them shall purchase or cause to be withdrawn.

III

That the silver purchased and withdrawn in accordance with Article II above shall be used for currency purposes (either for coinage or for currency reserves) or be otherwise retained from sale during the said period of four years.

IV

That the Government of China shall not sell silver resulting from demonetized coins for a period of four calendar years commencing Jan. 1, 1934.

V

That the Government of Spain shall not dispose by sale of more than 20,000,000 fine ounces of silver during the period of four years commencing Jan. 1, 1934.

Commercial & Financial Chronicle, July 29, 1933, p. 777.

1933 announced that the Treasury would purchase all newly mined domestic silver at a price of 64.64 cents an ounce. The market price was then about 43 cents.

The administration's most far-reaching action with respect to silver was the Silver Purchase Act of June 1934, which declared it was the policy of the United States to increase this country's silver stocks until they equalled one-third of the gold stocks. The Secretary of the Treasury was accordingly instructed to purchase silver at home or abroad until this objective was attained, or until the price of silver exceeded $1.29 an ounce. He was given discretion in regard to the time and manner of purchase, and the prices to be paid. Silver certificates were to be issued against the newly acquired silver to an amount equal to not less than the cost of the metal.

This Act was followed in August 1934 by a Presidential order nationalizing silver, and requiring delivery to the government of all silver in the United States, with exemptions for certain classes. The price paid by the Treasury was 50.01 cents an ounce. The next governmental silver measure came in April 1935 when the price to domestic producers was raised until it finally reached 77.57 cents an ounce, at which level it has since remained.

The various measures with reference to silver may be listed in chronological order, as follows:[9]

1. Embargo on Silver Exports

The President, on March 6, 1933, placed an embargo on the exportation of silver coin or bullion, together with the embargo on gold. This action was directed principally at gold and was subsequently relaxed with respect to silver.

2. Authority Given President to Introduce Bimetallism, Free Coinage of Silver, etc.

The Act of May 12, 1933, in the so-called Thomas Amendment, contained a provision giving the President dictatorial powers over the monetary system. Among other things, he was authorized to place the country, by proclamation, on the bimetallic standard, and to open the mints to the unlimited coinage of silver at practically any ratio he chose. He was given authority to alter the weight of the silver dollar as well as the gold dollar. Although the gold dollar was reduced, the silver dollar has not been disturbed. In practice, this power could be used even to place the country on the silver standard.

3. War Debts Made Payable in Silver

This same Act empowered the President, for a period of six months, to accept silver in payment of war debts—such silver to be valued at a price not to exceed 50 cents an ounce, and the aggregate value not to exceed $200,000,000. Against silver so received silver certificates were to be issued and used in payment of government obligations. Under this provision, 22,735,000 fine ounces of silver was received from foreign debtor governments and credited at 50 cents an ounce.[10-11] The market price at that time was about 34 cents.

4. Silver Made Legal Tender

On June 5, 1933 a joint resolution provided that all coins and currencies of the United States should be legal tender for all public and private debts. Silver dollars were already legal tender, except where otherwise stipulated in the contract, but prior to this date silver certificates and certain other currencies had not been legal tender.

5. World Economic Conference

At the World Economic Conference, which convened in London in June 1933, the United States secured the adoption of various arrangements favorable to silver.[12]

6. Purchase of Domestic Silver

On December 21, 1933 the President ordered the purchase by the Treasury of all newly mined domestic silver at a price of 64.64 cents an ounce. The market price at that time was about 43 cents an ounce. The Proclamation, issued under authority of the Act of May 12, 1933, did not specifically mention a price, but provided that the mints receive all newly mined domestic silver and return half to the owner in the form of silver dollars—the other half being retained as seigniorage. Since each ounce coins into $1.2929 of silver dollars, the arrangement amounts to a price of one-half this sum or 64.64 cents for every ounce offered. Such purchase is to continue until the end of 1937. The price paid was raised to 71.11 and then to 77.57 cents in April 1935 by a reduction of the seigniorage.

7. Silver Purchase Act

This Act, approved June 19, 1934, declared that the policy of the United States was to increase this country's silver stocks with the ultimate objective of having one-fourth of the country's monetary stocks consist of silver.

The Secretary of the Treasury was accordingly instructed to purchase silver at home or abroad at such rates and on such "conditions as he may deem reasonable and most advantageous to the public interest."[13] The Act provides that no purchase be made at a price in excess of $1.29 an ounce, the monetary or coining value of one ounce. Should the market price exceed this figure, or should the proportion of silver

9. Cf. Annual Reports of the Secretary of the Treasury and of the Federal Reserve Board.

10-11. This silver was received on account of war-debt payments due in June 1933. No other payments were made, apart from $6,000 paid by Latvia. Finland paid in full, while Britain, Italy, Czechoslovakia, Rumania and Lithuania made token payments. *Annual Report of the Secretary of the Treasury for the Fiscal year ended June 30, 1933* (Washington, Government Printing Office).

12. Cf. pp. 96-97; also Maxwell Stewart, "Silver—Its International Aspects," *Foreign Policy Reports*, November 13, 1931.

13. Public No. 738, 73rd Congress, H.R. 9745.

be greater than one-third of the gold stock, the Secretary of the Treasury, with the approval of the President, may sell any silver acquired under the Act, provided such sale does not interfere with silver which may be guaranteeing silver certificates outstanding.

The Act also directed the Secretary of the Treasury to issue silver certificates to an amount not less than the cost of all silver purchased.

The President was empowered to require delivery to the mints of all silver within the United States. Owners of such silver were to be compensated at a fair valuation according to previous prevailing market prices. Another provision, aimed to prevent excessive speculative profits, imposed a tax of 50 per cent of profits from buying and selling silver, less certain allowed expenses.

8. Licensing of Silver Exports

On June 28, 1934 the Secretary of the Treasury placed an embargo on all exports of silver except under license. The purpose of this was to prevent an outflow of the metal to foreign markets, where it was being drawn by more attractive prices and in anticipation of nationalization. Foreign speculators interpreted the American price-raising policy with sufficient confidence to bid strongly for the metal, and the Treasury by its embargo undertook to prevent the necessity of subsequent repurchase of silver at higher prices.

9. Silver Nationalization

On August 9, 1934 the President, acting under authority of the Silver Purchase Act, required delivery to the government within 90 days of all silver existing in the continental United States. Certain types of silver, such as fabricated articles and foreign coins, were exempt. The price to be paid for such silver was fixed at 50.01 cents an ounce,[14] which was only slightly above the prevailing market price. Newly mined silver continued to be bought at 64.64 cents an ounce.

10. Domestic Price Raised

President Roosevelt, by proclamation on April 10, 1935, reduced the seigniorage and service charges on newly mined domestic silver from 50 to 45 per cent of the coining value of $1.2929. This increased the price offered from 64.64 to 71.11 cents an ounce. On April 25 the seigniorage was reduced to 40 per cent, raising the price to domestic producers to 77.57 cents an ounce—which still prevails.

These moves were made because of the rise in price of foreign silver, which was due to Treasury purchases abroad. The administration desired that American producers receive a price in harmony with that received by foreign sellers. The temporary withdrawal of the Treasury from the foreign silver market late in 1935 and the collapse of the foreign price are discussed below.

14. This price was determined by fixing seigniorage and other charges at 61 8/25 per cent of the coinage value of $1.2929 per ounce.

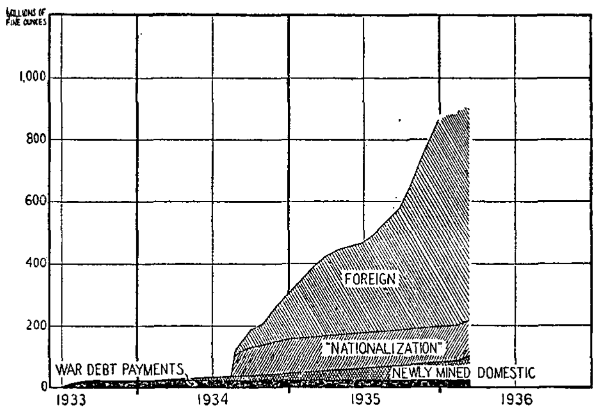
ADMINISTERING THE SILVER PROGRAM

The silver policy of the Roosevelt administration has expressed itself most conspicuously in the purchase of large quantities of silver, both at home and abroad, and in the payment of prices for this metal considerably in excess of those which would have prevailed had silver been allowed to seek its own level. The excess paid has amounted to a substantial subsidy to American silver producers, and also to foreign sellers of silver.

These acquisitions are shown in Chart I. When the Treasury began domestic purchases in December 1933, paying 64.64 cents an ounce, the market price had already risen from about 25 cents at the beginning of the year to approximately 43 cents. This rise was largely in anticipation of the silver measures expected to be adopted by the government, and was also due to devaluation of the gold dollar. In terms of gold, the price of silver changed little during 1933. The purchases of foreign silver began soon after the passage of the Silver Purchase Act in June 1934.

CHART I

TREASURY ACQUISITIONS OF SILVER
(Cumulative)



Sources: *Commercial and Financial Chronicle; Reports of Secretary of the Treasury.*

In carrying out the provisions of this Act, the Secretary of the Treasury is vested with discretionary powers, although responsibility for the program, of course, rests with Congress. He may buy as slowly or as rapidly and at such rates as he deems in the public interest. Secretary Morgenthau now began to make purchases energetically both at home and in foreign markets, and as a consequence the price of silver continued to rise. In August of 1934 came the order nationalizing all silver in the country, and accordingly large amounts of the metal were turned over to the Treasury.

The intention of the Act as stated therein was that silver should be acquired until one of two things happened—either silver stocks should have been raised to the point where they were one-third of the value of the gold stocks (silver to be computed at its coinage value of $1.29 per ounce), or the price of silver should be in excess of $1.29 an ounce. Gold stocks in the country at that time amounted to about $7,800,000,000 (devalued dollars). One-third of the value of these gold stocks was thus approximately $2,600,000,000 (2,010,000,000 ounces of silver). Existing silver stocks had a monetary value of about $903,000,000 (700,000,000 ounces), so that there needed to be acquired additional silver to the extent of about $1,700,000,000 (monetary value) or a little over 1,300,000,000 ounces. This was the goal set at that time by the Act. Since then matters have changed, in that huge gold importations have increased the additional silver needed.

The Treasury had acquired a total of 885,970,959 ounces as of June 5, 1936, exclusive of foreign silver acquired since December 27, 1935 the amount of which has not been revealed by the Treasury, but including silver received on war-debt account.[15] Gold importations since the passage of the Act have raised gold stocks to approximately $10,453,000,000. If one-third of this, or about $3,484,300,000 is to consist of silver (2,700,000,000 ounces), there remained in June 1936 a total of approximately 1,114,030,000 ounces of silver still to be acquired, less such foreign silver as had been purchased since the first of 1936.

The Act directed the Secretary of the Treasury to issue silver certificates to a face amount of not less than the cost of all silver purchases. Silver certificates were also to be issued against war-debt silver receipts. Accordingly, silver certificates in circulation have increased from $401,000,000 in June 1934 to $1,106,428,531 as of May 29, 1936. The government has authority to issue certificates to the full monetary value of the silver or, in other words, $1.29 of paper for every ounce.

METHOD OF FOREIGN PURCHASING ALTERED

The price of silver of foreign origin rose in the spring of 1935, due to the stimulus of Treasury purchases, to a point where it exceeded the price being paid to domestic silver producers. The domestic price was consequently raised as already noted. The effect of this action was to encourage foreign speculators, who believed that the Treasury was going to push the price of silver continually up, perhaps to $1.29 an ounce. In May 1935 silver rose to about 81 cents. The Treasury, however, was unwilling to compete in such a runaway market and decided not to follow the price. Bombay speculators were restrained by London bankers who anticipated that the United States might not continue its aggressive policy. Speculative buying became hesitant and the price of silver gradually declined during the rest of the year, the first set-back silver had received since the United States began supporting the metal.

In December 1935 the Treasury suddenly changed its policy regarding purchases abroad and practically withdrew from the foreign market. Panicky selling took place. The price of foreign silver dropped abruptly with repercussions in many countries, thus clearly revealing the extremely artificial nature of the silver market and its control by the United States Treasury.[16-17]

The reasons for this sudden change in policy, although not officially revealed, apparently had to do with developments in the Orient. China had been driven off silver in November 1935. In spite of governmental restrictions in China, silver for many months had been leaving the country in response to the high prices offered by the United States Treasury. When China left the silver standard, silver circles in America began to realize that perhaps matters had been pushed too far. China, normally an important buyer of silver, left the silver standard and was now an active seller of the metal.

Moreover, American purchases of silver in Lon-

15. Newly mined domestic silver had been bought to a total of 86,505,408 ounces to June 5, 1936, and foreign silver to a total of 663,900,000 ounces to December 27, 1935. Domestic silver acquired under the Proclamation of August 9, 1934 amounted to 112,830,551 ounces to June 5, 1936. (*Commercial and Financial Chronicle*, June 13, 1936.)

16-17. London bullion brokers, known as the "four just men," meet and fix the price of silver each day after all offerings and bids are received. The price is one which they believe will clear the market. All sales are to be consummated at the price for the day. The Treasury until December had submitted its order to London usually before the fixing, and according to Pixley and Abell, London bullion brokers, had for a long time stipulated that the price fixed should not be below the limit the Treasury was willing to pay. The Treasury had stated that if the amount bid for was not sufficient to maintain the price of silver, the Treasury's bid would be increased. Since the Treasury was the principal buyer, its bid was ordinarily accepted as the quotation for the day. On December 9, however, the Treasury changed its policy and made no bid. After negotiation, it finally took all silver offered, mostly from China, but at a reduced price. The next day the Treasury bought no silver. The market was demoralized, and for the first time since 1914 the brokers were unable to fix a price. On the following day the Treasury took only 7½ per cent of the offerings. Although the Treasury was reducing its purchases in London, according to reports it was buying substantial amounts in Bombay.

Cf. Handy and Harman, *Annual Review of Silver Market for 1935;* also, *New York Times*, February 23, 1936.

don—largely Chinese silver—were helping the Chinese government organize a sterling reserve to back its new managed currency. The United States Treasury was thus financing the establishment of a more intimate tie between the Chinese dollar and the pound sterling. The United States, which broke down China's currency, was now preventing China from obtaining the expected favorable prices for its silver which would have been helpful in establishing a needed reserve.

An additional factor, perhaps the major one, causing the Treasury practically to halt its purchases in London, was the sale of Chinese silver by Japan. Japan was taking silver out of North China and Manchoukuo, and substituting paper currency. Sale of this silver to the United States Treasury at attractive prices, it was reported, helped Japan to finance its operations in China. Silver smuggled out of China proper was also apparently coming to the United States via Japan. In the first nine months of 1935 Japan exported 144,000,000 yen of silver, compared with 7,000,000 yen in the same months of 1934.[18]

Another element influencing the Treasury was reported to have been its desire to avoid further appreciation of the pound sterling in New York. Whenever the Treasury enters the foreign exchange market to buy silver, the effect is to strengthen the rate for foreign currencies in New York. The Treasury is thus provided with a means of influencing the foreign exchange value of the dollar.[19]

European capital had been flowing to America in large amounts during 1935, which tended to strengthen the dollar in the foreign exchange markets. Anticipation of a slowing-down of this capital influx and a consequent rise of the pound in terms of dollars, it was reported, influenced the Treasury in restricting sharply its foreign purchases of silver. Another reason is said to have been the Treasury's desire to reduce the importance of London as a silver market and to confine its purchases principally to new silver coming from producing countries.

After a few days of chaos in the foreign silver market, the Treasury announced that it was still buying silver abroad. Purchases in London and New York were small, as if to indicate that the buying program had not ended, and were made at reduced prices, leaving large offerings overhanging the market. During the next few weeks the price of silver was allowed to decline until in January 1936 it was 45 cents an ounce, nearly half what it had been at its maximum in 1935 but almost double its low point during the depression. Since early 1936 the policy of the Treasury has been to keep the foreign price of silver stabilized at approximately 45 cents an ounce.

In January 1936 the Treasury announced that it had concluded an agreement with Mexico relative to silver. According to the terms of this agreement, the Treasury would acquire through the Bank of Mexico practically all of the newly mined Mexican silver.[20] Mexico's silver mines are owned predominantly by Americans, as the following figures show:[21]

ESTIMATED OWNERSHIP OF MEXICAN SILVER MINES, 1925

		percentage of output
American	owned	54.14
British	"	21.28
Spanish	"	7.08
Mexican	"	5.82
Other	"	11.68

In March 1936 the Treasury announced that it had made an arrangement with Canada similar to that with Mexico. The purchases of newly mined Canadian silver, according to the agreement, are to be made by the Federal Reserve Bank of New York, as agent, through the Bank of Canada. The amounts to be purchased are determined from month to month by the Treasury, but apparently are to include practically the total Canadian output—which in 1935 amounted to 16,413,000 ounces.[22] The Treasury indicated that it might conclude buying agreements with South American countries whereby it would purchase practically all of their newly mined production.[23]

Secretary Morgenthau announced on May 18, 1936 that an agreement had been reached with China whereby substantial purchases of silver were to be made, and the proceeds used to help stabilize China's currency. The policy of the Treasury thus appears to be to confine its purchases largely to newly mined and Chinese silver, and to buy directly from producing countries rather than via London.

18. Ray B. Westerfield, *Our Silver Debacle* (New York, Ronald Press, 1936).

19. Although no statements have been made public concerning stabilization activities, the dollar-pound rates have exhibited greater stability than would appear likely without intervention, particularly during such a disturbed period internationally as was 1935 and the first part of 1936.

20. *New York Times*, March 6, 1936; *Wall Street Journal*, March 6, 1936. Mexican silver production in 1935 amounted to 74,500,000 ounces. *Engineering and Mining Journal*, February 1936.

21. Herbert M. Bratter, *Journal of Political Economy*, June 1931; quoting report of American Commercial Attaché, Mexico City.

22. *Engineering and Mining Journal*, February 1936.

23. *New York Times*, March 5, 6, 1936; *Wall Street Journal*, March 6, 1936.

EFFECTS OF U.S. PROGRAM ON CHINA

Proponents of the American silver program urged that raising the price of silver would benefit China, increasing that country's purchasing power. It was also claimed that depreciating the American dollar in terms of silver would be helpful to American trade with China. Economists dissented. Results have proven the fallacy of both arguments.

In China, until recently, money consisted very largely of silver and, conversely, silver, even in bullion form, was money. Copper coins were used by the great mass of the people for small purchases, but silver constituted the principal monetary standard and was used for most purchases of any size.[24] It was the metal used by banks for reserves, and was hoarded by persons fortunate enough to possess it.

As the American silver program got under way and the Treasury offered higher and higher prices, China saw its money depart for the United States. China had normally been a silver importing nation —a buyer and not a seller of the metal—absorbing large quantities in exchange for tea, silk and other goods. Silver stocks in Shanghai declined from about 440,000,000 ounces at the end of 1933 to 257,000,000 in March 1935.[25] Its exodus meant a contraction of the country's currency supply and left closed banks, severe depression, bankruptcies and stagnant trade.[26]

China had been going through an inflationary boom from about 1926 to the latter part of 1931, due principally to large accumulations of silver in the reserves of the banks and to the cheapening of the metal throughout the world. Silver came to Shanghai from the interior for protection and because business was dull due to political disturbances. Silver also came in from abroad. In Shanghai silver stocks had increased from about 101,000,000 ounces in January 1926 to 449,000,000 in June 1934. As a result, money was plentiful and commodity prices rose in China.

Chart II shows the course of commodity prices in Shanghai—which reached a peak in 1931—and the fall that has since taken place. It shows also the world price of silver, and commodity prices in the United States. It will be noted that commodity and silver prices in China tend to move inversely.

24. For a discussion of the different currency standards prevailing in China, cf. Frank Whitson Fetter, "China and the Flow of Silver," *The Geographical Review*, January 1936.

25. Handy and Harman, *Annual Review of the Silver Market for 1935*.

26. Complete silver export figures are not available, since a large amount of silver was smuggled out of China.

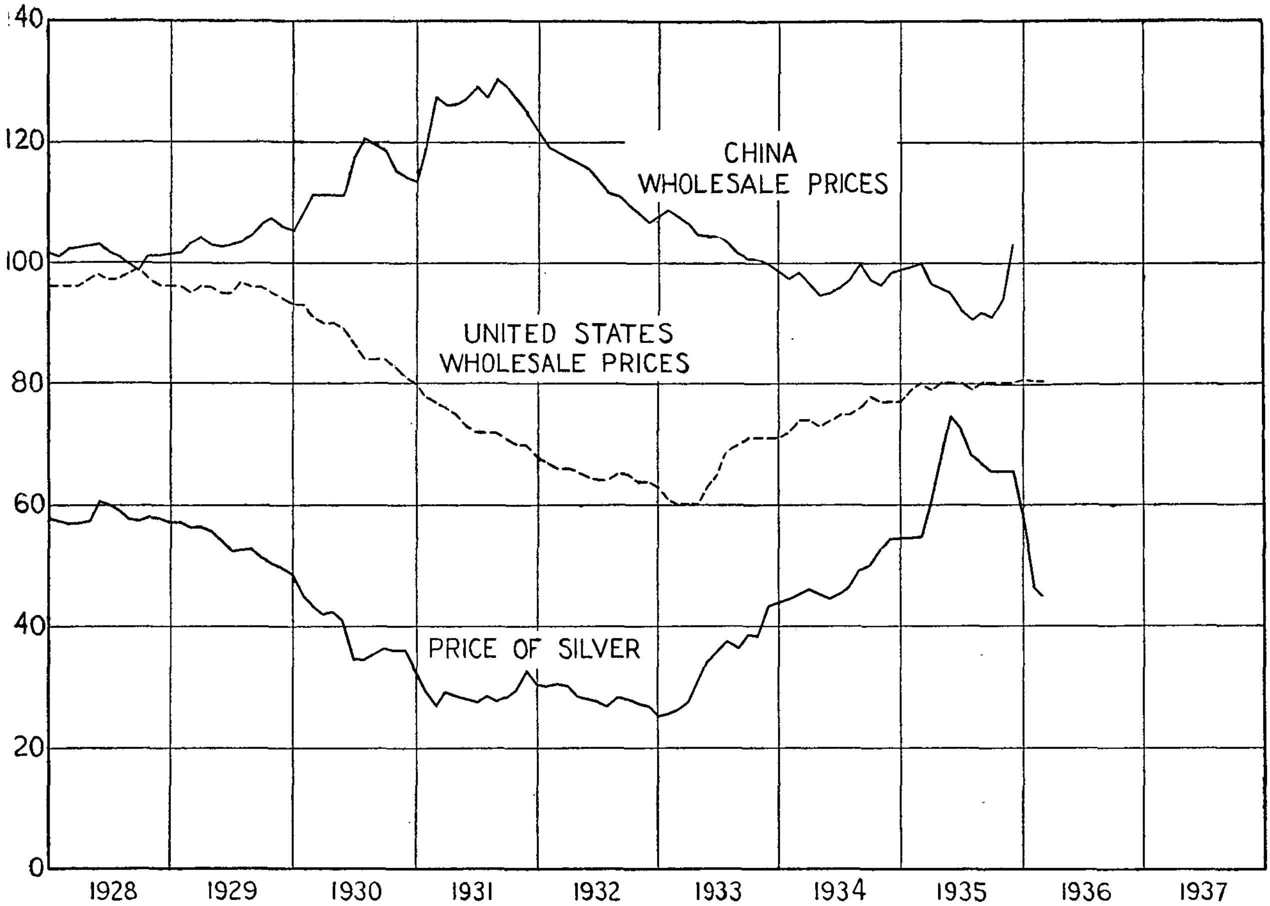
China, with rising commodity prices, enjoyed prosperity when the gold standard world was suffering from falling prices and depression. Although prices abroad were low, China was able to sell outside its borders because foreign gold values could be converted into a large amount of Chinese currency at favorable exchange rates due to the cheapening of silver in terms of gold.[27]

The commodity price level in China stopped rising and began to decline in the fall of 1931, as can be seen in the chart. This decline coincided with Britain's departure from gold in September of that year. The pound sterling promptly depreciated abroad and the price of silver, which had already stopped falling, turned upward. The rise in silver was short-lived, but its long decline had come to an end and, with it, the boom in China. The ending of silver's decline was due primarily to prospects regarding American assistance to the metal and to the halt of commodity price declines in Britain once that country left gold. Commodity prices throughout the gold standard world, however, continued downward for another year. This change in the trend of Chinese commodity prices marked the end of inflationary prosperity there. A downswing of business in China was thus in process when the United States started actively to boost silver. As the price of silver rose, China's depression became increasingly severe. Falling silver had been unhealthily stimulating to China, and an ending of the decline ended the prosperity. The rising price of silver, on the other hand, had depressing effects. As it continued, it led to severe economic disorders; banks saw their cash reserves depleted by withdrawals of the metal for shipment abroad. As large reserves had financed the boom and rising prices, so reduced reserves and a contraction of the currency spelled deflation, falling prices, and depression. While the American silver program cannot be blamed for originating the depression in China, this should not detract from the fact that a rising silver price was the principal factor responsible for China's grave economic

27. The fall in the price of silver, in terms of gold, in 1929, 1930 and 1931 also contributed to the rise in commodity prices in China by making foreign goods more expensive. Exchange rates on gold countries rose as silver fell, and thus made foreign goods more costly in China. To most of the world, silver was merely a commodity and its price fell along with those of other commodities, in fact fell more rapidly than most. Chart II shows how silver fell from about 60 to 27 cents an ounce during the period when commodity prices in the United States were falling from about 98 to 75 (and then to 60). In China, where silver was used as a currency unit to measure values, this greater fall of silver—a cheapening of silver in terms of foreign commodities—meant that foreign goods cost a larger amount of silver. Domestic prices within China, however, had been rising due largely to the inflationary movement.

CHART II

PRICE OF SILVER AND WHOLESALE PRICES IN CHINA AND UNITED STATES



Silver in cents per fine ounce. Price indices 1926=100. For China, wholesale prices in Shanghai. For United States, Bureau of Labor Index.

Sources: National Tariff Commission, Shanghai; League of Nations, *Monthly Bulletin of Statistics;* Bureau of Labor Statistics.

troubles after early 1933, culminating in the breakdown of its currency system.

It had been contended in the United States that a rise in the price of silver would stimulate sales to China by increasing the value of China's money in terms of United States dollars and other foreign currencies. These expectations, however, were not borne out by subsequent experience. Exchange rates in China began to rise in 1933, along with the rise in silver. In 1933 there were 28.60 American cents to a Chinese Yuan; in 1934, 34.09. This rise in exchange rates, instead of helping China's trade, proved very disturbing. Chinese exporters found their sales yielding less in Chinese money, so that exports were discouraged. Importers, on the other hand, were unable to sell as much as formerly, although foreign goods became cheaper as silver rose. They sold less because of depressed conditions within China and the reduction of the people's purchasing power which accompanied the drastic deflation. Foreign trade thus declined sharply.

In 1935 China's total foreign trade, according to League of Nations figures, amounted to only about 66 per cent of the 1931 level.[28] The loss was evenly divided between exports and imports, exports being 65.26 per cent of the 1931 level and imports 66.66 per cent. While trade between the United States and most of the world has been increasing since 1933, this country's trade with China has been declining, due principally to the severe economic disturbances within China, which in turn are attributable in large measure to high-priced silver. Foreign trade, moreover, is aided by exchange rate stability, and damaged by wide fluctuations such as took place when China's currency was tied to silver.

As the American silver program progressed,

28. League of Nations, *Monthly Bulletin of Statistics.*

China became increasingly fearful of its effects upon its economy, and the Chinese government early protested to the United States government. In February 1934 Dr. H. H. Kung, Minister of Finance, informally brought to the attention of the American government the probable detrimental effects on China of the projected rise in the price of silver. On August 19 Minister Kung addressed a communication to President Roosevelt, declaring that China had ratified the London silver agreement of 1931 with the understanding that "its major purpose was to assure the stability of the price of silver which was thought menaced by the large surplus stocks held by the Governments of India and Spain. . . .

"It now appears that under the Silver Purchase Act of 1934 the stability of the price of silver and the interests of China are as much menaced as by the previous situation of potential sellers. China would therefore appreciate an indication of the probable policy of America in the future purchase of silver in order that China may properly safeguard her currency, which has recently been flowing out of the country to a degree that is potentially alarming."[29]

The reply of the United States, dispatched on September 22, after referring to this government's policy of increasing its holdings of silver, said that the government was thus endeavoring to expand the monetary use of silver as recommended by the resolution adopted in London.

On the next day, September 23, Minister Sze sent a communication to the American government outlining the severe economic disturbances and dislocation of affairs which the American silver policy was producing in China. The note said that China was obliged to consider changing the country's currency system, and the gradual adoption of a gold basis currency.

To this communication the American government replied on October 12, 1934 that the silver buying program was embodied in an Act of Congress and was mandatory upon the Executive. It continued: " . . . this Government, while necessarily keeping within the general purpose of the enactment, will give the closest possible attention to the possibilities of so arranging the time, place and quantity of its purchases as will keep in view the considerations put forward by the Chinese Government in its communications."[30]

China became convinced that it could expect no relaxation of the aggressive American policy, which was playing havoc with its economic affairs. On October 15 China endeavored to stem the outflow of silver, halt further appreciation of the Chinese silver dollar and stay the depression by imposing an export levy of 10 per cent on exportation of silver, plus an equalization charge which varied with the price of silver. By this measure the Chinese currency was separated from the price of silver, and exchange rates no longer fluctuated with every change in silver. The measure helped somewhat, but was not entirely effective because of the difficulties of enforcement.

The price of silver continued to rise. At the time of the above communications in the fall of 1934, it was around 50 cents an ounce, while in May 1935 it rose to 81 cents. Silver was smuggled out of China in spite of government restrictions. China's problem thus continued acute. The silver standard was finally abandoned on November 4, 1935, when a managed currency was substituted for China's historic standard. The British colony of Hong Kong took similar action.[31]

Managing the currency so as to maintain it at a relatively stable level is not an easy task for China, or any nation. It should, however, be no more difficult than attempting to do business on the basis of a metal whose international value fluctuated as did silver. China's experience with its new currency has thus far been gratifying. A large foreign reserve has been acquired, particularly in New York

29. Kuo Min News Agency, October 16, 1934.

30. Kuo Min News Agency, October 14, 1934.

31. In announcing the change Minister of Finance H. H. Kung, after recounting the disturbances suffered by China and referring to his country's efforts to check the outflow of silver, said:

"It was, however, clear at the outset that the measure adopted could only be temporarily effective; as long as the value of the currency remained high, deflation would continue and with increased severity; should the value fall and create a wide disparity between the domestic and foreign price of silver—as in fact has happened—extensive smuggling of silver would result.

"In order to conserve the currency reserves of the country and to effect lasting measures of currency and banking reform, the Government, following the precedents of many countries in recent years, has decreed, with effect from November 4, 1935, as follows:

"1. The banknotes issued by the three Government banks, . . . shall be full legal tender . . . . The notes of all other issuing banks . . . will gradually be withdrawn . . . their bank note reserves are to be deposited with the Central Bank.

"2. All debts expressed in terms of silver shall be discharged by the payment in legal tender notes of the nominal amount due.

"3. All holders of silver are required to exchange their silver for legal tender notes.

"4. The exchange value of the Chinese dollar will be kept stable at its present level, and for this purpose the Government banks will buy and sell foreign exchange in unlimited quantities.

"The Government-owned Central Bank is to be reorganized as the Central Reserve Bank of China . . . devoting itself chiefly to maintaining the stability of the nation's currency . . . . After a period of two years [it] will enjoy the sole right of note issue."

Currency Reserve Board, "The Monetary Policy of China," Shanghai, January 15, 1936.

and London, and the new currency has been well received by the people.

China's action dealt a severe blow to silver, since China for generations had absorbed large quantities of the metal. It brought practically to an end the long history of silver as a currency standard. It also left the United States Treasury the principal buyer of a metal which other nations do not want.

At the request of the United States, representatives of the Chinese government conferred in Washington with the American government in April 1936 regarding the silver program.[32] On May 18 announcement was made that an agreement had been reached whereby the United States would purchase considerable amounts of silver from China. The American dollar proceeds are to be maintained chiefly in New York and are to be available to assist in the stabilization of China's managed currency. The United States had on two previous occasions purchased large amounts of silver from China which were helpful to China.[33]

The new agreement indicates more active cooperation by the United States, and is particularly significant in view of the previous effects of its silver policy on China, together with the fact that China had been looking increasingly to Britain for financial assistance. Ambassador Sze issued a statement, also given out in Shanghai, in connection with the agreement, which declared that China's currency was to be independent and not linked to any foreign unit. Britain, it was reported, had been endeavoring to have the Chinese Yuan linked to the pound. The agreement will strengthen the foreign reserves backing China's new currency, which has been functioning successfully thus far, and should be of substantial benefit to China.

RESULTS OF THE PROGRAM

One of the principal aims of the silver policy was to stabilize the price of silver and to prevent wide fluctuations. During 1935 the price was artificially raised from 54 cents in February to 81 cents in May, and then allowed to fall, reaching 45 cents in January 1936. At no previous time in the history of silver were the fluctuations so great as during 1935, when the American silver program was in full swing.

In the London silver agreement of July 1933, the United States pledged itself to the policy of "mitigating the fluctuations in the price of silver," and urged other nations to "refrain from measures which could appreciably affect the silver market." The measures since adopted by the United States can scarcely be said to be designed to avoid appreciably affecting the silver market.

A *second* aim of the silver policy was to encourage foreign nations to utilize more silver in their monetary systems. The various nations, however, have shown no inclination to employ silver more extensively; on the contrary, China, the great silver using country, was compelled to abandon the silver standard and dispose of large quantities of the metal from monetary and banking channels. Mexico was forced to call in its silver pesos in the spring of 1935 and substitute paper because of the high silver value of the coins. Cuba was the only nation, apart from the United States, that bought any large amount of silver in 1935 for coinage purposes. Thus instead of bringing monetization, the program has brought demonetization of silver.

Another prominent aim was to increase the purchasing power of silver standard countries, particularly that of China, by raising the price of silver.[34] This proposition involved a well recognized economic fallacy,[35] as was pointed out by economists prior to the inauguration of the program. Raising the price of silver does not increase the purchasing power of silver standard countries, but on the contrary interferes with trade and economic conditions.

The serious damage inflicted on China by the American silver policy has already been discussed. China's currency and fortunes were at the mercy of American political maneuvering. Since the price of silver was not only unstable but its future uncertain, China took the sensible course and severed the tie with silver.

Mexico, as the largest silver producing country, has been benefited by the high prices obtaining for the metal, although its currency system has been disturbed by accompanying economic difficulties. If the price of silver rises above 72 cents an ounce, the silver in a peso becomes worth more than the peso. In April 1935 silver rose above this point and Mexican pesos began to be withdrawn from circulation, hoarded, melted down, and exported to the United States. Credit contracted and Mexico experienced a financial crisis. The government closed

32. *New York Times*, April 8, 1936.

33. In November 1934 19,000,000 ounces, and in November 1935 50,000,000 were bought. *New York Times*, May 19, 1936.

34. President Roosevelt, in his Proclamation of December 21, 1933, expressed a purpose as "to augment the purchasing power of peoples in silver using countries."

35. It confuses real wealth with money—the measure of wealth—and is not unlike changing the size of the rule in order to increase the length of the cloth. The wealth of a country consists of its resources, its buildings, railroads, factories and numerous other things tangible and intangible. The purchasing power of a country with other countries is represented principally by its production available to be traded with these other countries.

the banks, called in all silver pesos and substituted paper and bronze coins. Subsequently, 50 centavo silver coins of 420 fineness were issued.[36]

A further purpose of the American silver program was to protect American trade against depreciating foreign currencies, particularly those of Japan and China. The Japanese yen is not based on silver nor does its value fluctuate with that of silver. Its depreciation is therefore a separate question. In the case of China, however, the depreciation of Chinese exchange rates due to silver was disturbing to trade—tending to make Chinese goods cheap in America, and American goods in China more expensive.

Such disturbing effects disappear when exchange rates become reasonably stable. It is the fluctuations which cause trouble. In the case of China, stability in silver should have been the aim if the disturbing effects of depreciating, or appreciating, foreign currencies were to be avoided. The United States, however, brought about unprecedented instability and uncertainty in silver, and therefore in Chinese exchange rates.

The silver policy has also been harmful to the United States, excluding benefits to that small group of persons who profit by a higher price of silver. The total cost of the silver purchased has not been made public by the Treasury, but the amount may be approximately estimated. On the basis of prices prevailing when silver purchases were made, the Treasury must have spent by June 1936 close to $575,000,000,000 in acquiring a metal for which it has no need and which no one wants.[37]

From the currency point of view, the silver being accumulated by the Treasury serves practically no useful purpose. For many years the Treasury has possessed excessive amounts of silver. Since this country is not on the silver standard, a silver reserve is of no more use than would be a hoard of any other commodity, such as copper or wheat. Silver cannot be said to "support" paper money—even silver certificates—because certificate holders have no desire for redemption in silver.[38] Gold reserves do not need assistance from silver, even if this were possible—which it is not unless the country should adopt bimetallism. Gold reserves are already dangerously excessive due to devaluation of the dollar, huge gold imports and peak gold production.

The large expenditures for silver have been coming at a time when the budget is badly out of balance and when deficit financing out of bank credit is having inflationary effects. The fact that new silver certificates are issued against the metal does not relieve the financial burden, for if the country is to have this amount of paper money inflation, the paper could as well have been spent for something useful, such as retiring the government debt. The certificates are obligations of the government and receivable by it for taxes.

The issuance of this new money—about $700,000,000—represents a direct inflation of the currency, tending to raise the level of commodity prices. The amount of inflation from this source is, on the other hand, not as serious as that resulting from government deficit financing by bank borrowing. The new certificates tend to increase member bank reserves at the Federal Reserve Banks, and in this manner permit potential inflation of considerable proportions.[39]

The silver policy has been damaging to the metal itself. It hastened the ending of the silver standard by forcing China, the last stronghold of silver[40] and an historic buyer of the metal, to abandon that

36. Mexico is sometimes mistakenly said to be on the silver standard, particularly after the law of July 25, 1931 which declared the silver peso the monetary unit. This law, however, did not introduce the silver standard. It did not provide for the free coinage of silver, and the value of the peso has been independent of the price of silver. The peso has been relatively stable with reference to gold since early 1933, and has been pegged at approximately 3.60 to the United States dollar.

37. During 1935, when most of the silver was bought, the average price in New York was 64.27 cents an ounce. In 1934 the average was 47.97 cents although, during the latter part of the year, when silver purchases were under way, the price was higher. Nationalized silver was acquired at 50 cents an ounce and newly mined silver at 64.64 cents, later at 77.11 and then 77.57 cents.

38. The silver certificates have inscribed on them: "This certifies that there is on deposit in the Treasury of the United States of America one dollar in silver payable to the bearer on demand. This certificate is legal tender for all debts, public and private." The certificates do not specifically say that they are redeemable in any other form of money. The Gold Standard Act of 1900 declared that it is the duty of the Secretary of the Treasury to maintain all forms of money on a parity with the gold dollar.

39. Although the purchasing media of the country are inflated by the issuance of silver certificates, the net amount of currency is not materially affected. Some 10 per cent of the country's business is transacted by currency, and the remaining 90 per cent by means of credit through bank checks. An expansion of silver certificates brings about a contraction of Federal Reserve notes, or obviates their expansion as business demands more currency. The Federal Reserve note is the elastic element in the currency, permitting the adjustment of the currency volume to the proper proportion of the total volume of currency and credit as determined by the needs of business.

Bank deposits can be converted into currency as needed, through the medium of the Federal Reserve System and, vice versa, currency which is excessive for the needs of the public is returned to the Federal Reserve Banks and becomes a reserve deposit. The newly issued silver certificates thus tend to take the place of Federal Reserve notes and in so doing expand the reserve balances of member banks, which are already dangerously large.

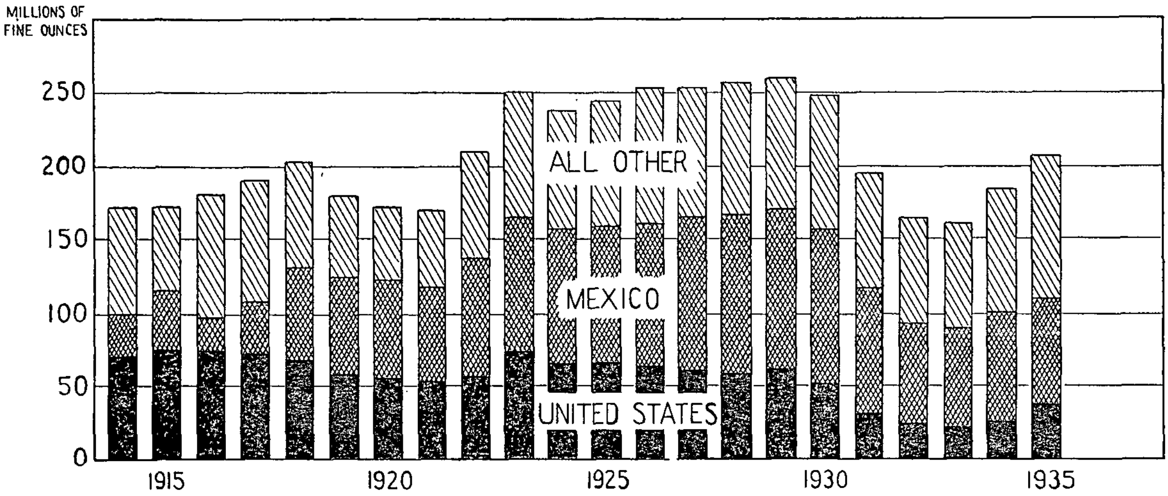
40. Abyssinia, Persia and Afghanistan do not have the silver standard, but have a managed silver currency.

standard. China has wished to leave silver for several years, but the American silver program compelled the plunge. China may now assume a rôle similar to that of India and throw large quantities of surplus metal on the world market. Those sponsoring silver realized this too late, and attempts were then made in the United States to get China back on silver.

Raising the price of silver has stimulated its production, as can be seen in Chart III. Although the production is below what it was a decade ago, it is none the less excessive in relation to needs. Because of changes in currency practices throughout the world, such as the tendency to use cheaper metals for subsidiary money, a lower fineness for silver coins, more paper money for lower denominations, and to depart from the silver standard, silver is less in demand than formerly—which means a lower price. Moreover, silver is produced principally as a by-product with other metals, so that the more copper, lead and zinc the world needs, the more silver it has.

CHART III

WORLD SILVER PRODUCTION: 1914-1935



Sources: *Annual Reports of the Director of the Mint*; Handy and Harman, *Annual Review of the Silver Market.*

When an article is produced in too large quantities, the automatic economic remedy is a lower price, which tends to discourage production. Maintaining an artificially high price, on the other hand, is heaping coals on the fire by stimulating production. When the United States finally withdraws from the silver market, the condition of silver will probably be worse than if the government had not interfered in the first place. To discontinue buying will be difficult economically and politically.[41]

The possibility of greater industrial uses for silver always exists. The total consumption by industry and the arts, however, is only about 20 to 25 per cent of annual production.[42] The film industry is using increasingly larger amounts for silver nitrate, but this use is not likely to have any great effect on the price. New uses for silver in the electrical field have increased consumption there, but the amounts are relatively minor. High prices are interfering with industrial consumption, and industry and the arts used less silver in 1935 than in 1934.

India, once a silver standard country, possesses huge silver supplies of which it would like to dispose, and therefore welcomes high prices for this metal. Because a large part of its currency consists of silver rupees, India is often mistakenly referred to as a silver standard country. The rupee, however, is a fiduciary coin, like the American quarter or dime; its value is tied to the pound sterling and not to silver. Since 1927 the Indian government has been endeavoring to unload on the world market its large and unneeded silver reserve. In accordance with the London agreement of 1933, however, it has restrained temporarily its annual sales of silver. As a silver seller, India benefits by the high prices and by the large supplies the United States is taking off the market. It is not to be wondered, therefore, that India commends the American program. Unlike China, its currency is undis-

41. In the United States silver is produced principally in Idaho, Utah, Arizona, Montana, Colorado, Nevada, New Mexico, California and Texas.

42. Cf. Handy and Harman, *Annual Review of the Silver Market.*

turbed because it is not tied to silver. If the price of silver should rise much above $1.08 an ounce, however, rupees might be melted down for their bullion.[43]

The President has authority to devalue the silver dollar, as he did the gold dollar. According to existing statute, an ounce of silver has a monetary or coining value of $1.29, which has not been changed since the content of the silver dollar was first established in 1792 on the recommendation of Alexander Hamilton. If the President should reduce the content of the silver dollar by the percentage applied to the gold dollar, an ounce of silver would have a monetary value of approximately $2.19. This would permit the issuance of many more silver certificates against existing silver stocks, and would involve serious inflation if such paper were issued.[44] On the other hand, devaluing the silver dollar would increase the face value of the Treasury's silver, so that the aim of having silver equal to one-third of the gold stocks would be quickly achieved, obviating further purchases. In January 1935, however, the President let it be known at a press conference that such action was not contemplated.

Whatever happens in the future—whether some such measure is eventually used to halt further purchases of silver, whether the Silver Purchase Act is repealed as has been urged, or the commodity continues to be piled up in the Treasury until the original purpose is accomplished — the United States Treasury now possesses the largest silver hoard the world has ever known.

43. For a discussion of the Indian currency situation, cf. Westerfield, *Our Silver Debacle*, cited.

44. Such issuance beyond the original cost of the silver is not obligatory, however, under the Silver Purchase Act.

WORLD SILVER PRODUCTION AND CONSUMPTION*

(*in millions of fine ounces*)

Silver Supplies	*1935*	*1934*
New Production		
United States	38.4	26.4
Mexico	72.2	74.1
Canada	16.4	16.4
South America	25.0	16.0
All other countries	54.5	52.5
Total Production	206.5	185.4
Other Supplies		
Sales by China, including smuggled silver not reported	190.0	200.0
Sales by Indian government	35.0	33.0
Sales by the Soviet Union	19.0	25.0
Other Demonetization		
Peru	.5	—
Austria	2.0	—
Persia	3.4	—
Indo-China	3.5	—
Netherland India	2.0	—
Unallocated supplies	160.6	—
Total	622.5	443.4

Silver Consumption	*1935*	*1934*
U. S. Government acquisitions		
Domestic production	37.9	21.4
Nationalized stocks	2.0	111.2
Open market purchases	503.8	174.5
	543.8	307.1
Other government purchases, under the Eight-Nation Silver Pact		
Mexico	7.2	7.2
Canada	1.7	1.7
Peru	1.1	1.1
Australia	.6	.6
Coinage		
Cuba	15.5	7.8
Colombia	—	3.6
Venezuela	1.8	—
Hongkong	—	9.0
Others	.3	.6
Indian consumption	5.0	15.0
German consumption	12.0	12.4
Arts and Industries		
United States and Canada	23.5	25.0
Great Britain	10.0	13.0
Unallocated demand, probably representing increased speculative holdings	—	39.3
Total	622.5	443.4

*Handy and Harman, *Annual Review of the Silver Market for 1935*.